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Congress Primed to Act on Risky Home Loans

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WASHINGTON -- Congress appears increasingly likely to pursue new protections for consumers seeking risky home loans, as defaults surge among borrowers and concerns rise over alleged abuses in the sector.

Top lawmakers in the House and Senate signaled their intention to tackle the issue, underscoring the more-activist sentiment prevailing on Capitol Hill since the Democrats swept to power in November.

Senate Banking Chairman Chris Dodd, the Connecticut Democrat who is running for president, has suggested Congress should curb what he views as predatory lending while finding ways to help "millions of families" facing foreclosure.

Yesterday, Mr. Dodd said federal banking regulators had been too slow to address these concerns. "I'm determined to do everything we can to allow people to stay in their homes," he said, but he stressed that details of any legislation remain to be worked out.

At issue are so-called subprime mortgages, home loans made to consumers with weak or sketchy credit histories. Subprime mortgages have helped millions of Americans become homeowners, but critics contend that aggressive lenders have pressed some borrowers into mortgages they can't afford. The mortgages carry high fees and often have escalating interest rates. A recent surge in defaults in the sector has roiled financial markets.

Sen. Charles Schumer, a New York Democrat and senior member of the Senate Banking Committee, predicted there would be a strong push for legislation focused on "the people who

originate these loans."

"There's going to be a significant role for Congress here," he said.

The mortgage industry is urging Congress not to be hasty. Lawmakers "could actually make the situation worse" if they force lenders to abandon certain types of loans that consumers may need to refinance themselves in a weak housing market, said Anne Canfield, executive director of the Consumer Mortgage Coalition, which represents national lenders. "The industry itself is self-correcting," she said.

Indeed, as defaults have increased in recent months, subprime lenders have tightened their lending standards, and some of the weaker ones have gone out of business.

Kurt Pfotenhauer, a senior vice president of the Mortgage Bankers Association, said consumers should be given clearer disclosures about loan risks so they can make their own decisions, but Congress shouldn't force lenders to decide what loans are "suitable" for a particular borrowers.

In the House, Rep. Carolyn Maloney (D., N.Y.), chairman of the Subcommittee on Financial Institutions and Consumer Credit, plans to push legislation to strengthen federal regulation of subprime mortgages, and she is organizing a series of hearings on the matter. Rep. Brad Miller, a North Carolina Democrat, is backing legislation to limit many of the fees and financing methods common in subprime lending.

Others in Congress are open to change but caution against going too far. Recent guidance to the industry from federal regulators "would probably prevent 80% of the defaults you're seeing today," said Rep. Spencer Bachus, the ranking Republican on the House Financial Services Committee. Nonetheless, the Alabama lawmaker said he sees merit in legislation that would set national standards for the industry and, among other things, assign liability in cases where consumers want to sue.

In an appearance on Capitol Hill yesterday, Housing Secretary Alphonso Jackson said he has asked the nation's largest mortgage companies, Fannie Mae and Freddie Mac, to look into

possible steps that could be taken to assist troubled borrowers. "We're doing everything in our power, in our moral persuasion, to try to keep mortgage foreclosures from occurring," Mr. Jackson told the House Financial Services Committee. "We don't have the power to dictate to them what they should do."

Housing and consumer advocates, meanwhile, are stepping up pressure for more protections for borrowers. Starting today, activists for the National Community Reinvestment Coalition, which promotes fair-lending practices, plan to fan out across Capitol Hill to urge lawmakers to protect consumers from abusive lending and to commit taxpayer dollars to bailing out families facing foreclosure.

"What we need to do is rescue the millions of homeowners who are in jeopardy," coalition chief executive John Taylor said.

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